



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
OWEN COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Owen County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$106,783 from the prior fiscal year, resulting in a cash surplus of \$1,262,036 as of June 30, 2001. Total cash receipts increased by \$1,058,275 from the prior year and disbursements increased by \$1,020,548. These increases are due in part from the money borrowed and spent to purchase a courthouse annex building to house the Owen County Clerk's Office.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$215,000. Future collections of \$283,816 are needed over the next nineteen years to pay all bonded debt principal and interest.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable William P. O'Banion, Owen County Judge/Executive

Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Owen County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Owen County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2002 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owen County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2002

OWEN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

William P. O'Banion	County Judge/Executive
Gary Minch	Magistrate
Bobby Gaines	Magistrate
Noel True	Magistrate
Eugene Vannarsdall	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Eugene Young	County Clerk
Carolyn Keith	Circuit Court Clerk
Zemer Hammond	Sheriff
Lee N. Cochran	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Norma W. McDonald	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

OWEN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:

Cash \$ 728,819

Road and Bridge Fund:

Cash 532,973

Jail Fund:

Cash 244 \$ 1,262,036

Amounts To Be Provided In Future Years for Annex Building -

Bond Principal Payments 215,000

Total Assets

\$ 1,477,036

Liabilities and Fund Balances

Liabilities

Annex Building - Bond Principal Payments (Note 4) \$ 215,000

Fund Balances

Unreserved:

General Fund Type

General Fund \$ 728,819

Road and Bridge Fund 532,973

Jail Fund 244 1,262,036

Total Liabilities and Fund Balances

\$ 1,477,036

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWEN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,850,078	\$ 1,660,619	\$ 1,154,706	\$ 34,753
Transfers In	77,400			77,400
Borrowed Money	232,100	232,100		
Kentucky Advance Revenue Program	567,800	534,600	33,200	
Bond Proceeds	240,000	240,000		
Total Cash Receipts	<u>\$ 3,967,378</u>	<u>\$ 2,667,319</u>	<u>\$ 1,187,906</u>	<u>\$ 112,153</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,958,295	\$ 1,769,695	\$ 1,076,021	\$ 112,579
Transfers Out	77,400	77,400		
Bond Principal Paid	25,000	25,000		
Borrowed Money Repaid	232,100	232,100		
Kentucky Advance Revenue Program Repaid	567,800	534,600	33,200	
Total Cash Disbursements	<u>\$ 3,860,595</u>	<u>\$ 2,638,795</u>	<u>\$ 1,109,221</u>	<u>\$ 112,579</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 106,783	\$ 28,524	\$ 78,685	\$ (426)
Cash Balance - July 1, 2000	<u>1,155,253</u>	<u>700,295</u>	<u>454,288</u>	<u>670</u>
Cash Balance - June 30, 2001	<u>\$ 1,262,036</u>	<u>\$ 728,819</u>	<u>\$ 532,973</u>	<u>\$ 244</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owen County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owen County Fiscal Court's Fund Type, a definition of that fund type, and county funds included within the fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owen County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, and Jail Fund.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owen County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

During fiscal year ended June 30, 2001, the Owen County Fiscal Court issued General Obligation Public Project Bonds, Series 2001, in the amount of \$240,000, in order to purchase a building to house the County Clerk's Office. Principal payments are made annually on January 1 and interest is due semiannually on January 1 and July 1. As of June 30, 2001, the outstanding debt included the following:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
January 1, 2002	\$ 5,700	\$ 7,500
January 1, 2003	5,522	7,500
January 1, 2004	5,344	8,000
January 1, 2005	5,154	8,500
January 1, 2006	4,952	9,000
January 1, 2007 - 2021	42,144	174,500
Totals	<u>\$ 68,816</u>	<u>\$ 215,000</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Voting Machines	11/13/1992	2/1/2002	5.42%	\$ 7,000

Note 6. Insurance

For the fiscal year ended June 30, 2001, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

OWEN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,370,834	\$ 1,660,620	\$ (1,710,214)
Road and Bridge Fund	1,153,115	1,154,706	1,591
Jail Fund	173,743	34,752	(138,991)
Totals	<u>\$ 4,697,692</u>	<u>\$ 2,850,078</u>	<u>\$ (1,847,614)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 4,697,692
Add: Budgeted Prior Year Surplus	300,000
Less: Other Financing Uses	<u>(824,900)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 5,822,592</u>

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SCHEDULE OF OPERATING REVENUE

OWEN COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

	<u>GOVERNMENTAL FUND TYPE</u>
<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 894,354
In Lieu Tax Payments	
Excess Fees	67,566
Licenses and Permits	
Intergovernmental Revenues	1,593,753
Charges for Services	183,878
Miscellaneous Revenues	30,874
Interest Earned	<u>79,653</u>
Total Operating Revenue	<u><u>\$ 2,850,078</u></u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWEN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 588,880	\$ 586,778	\$ 2,102
Protection to Persons and Property	767,158	656,005	111,153
General Health and Sanitation	80,806	79,904	902
Social Services	20,085	18,773	1,312
Recreation and Culture	21,176	21,176	
Roads	1,100,894	960,065	140,829
Debt Service	25,104	24,458	646
Capital Projects	1,207,903	255,361	952,542
Administration	360,786	355,775	5,011
Total Operating Budget - All General Fund Types	\$ 4,172,792	\$ 2,958,295	\$ 1,214,497
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	567,800	567,800	
Loan	232,100	232,100	
Bond Principal	25,000	25,000	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 4,997,692</u>	<u>\$ 3,783,195</u>	<u>\$ 1,214,497</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Owen County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Owen County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2002

